

LEWISTON CITY

Financial Statements

For the Year Ended June 30, 2006

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
Lewiston City
Lewiston, Utah

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lewiston City, Utah (the City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* I have also issued a report dated February 5, 2007, on my consideration of the City's internal control over financial reporting and over tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 9 and on page 33, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

The schedule of impact fees on page 36 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. It has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I express no opinion on it.

MATTHEW REGEN, CPA, PC

Matthew Regen CPA PC

February 5, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Lewiston City (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The total net assets (government and business-type activities) of the City increased during fiscal year 2006 by \$171,015 to a total of \$3,269,360. The governmental net assets increased by \$36,631 and the business-type net assets increased by \$135,384.
- The total net assets (government and business-type activities) of the City consist of \$2,608,646 in capital assets, net of related debt, \$64,445 in restricted net assets and \$596,369 in unrestricted net assets.
- The total long-term liabilities of the City were reduced \$38,184 during the fiscal year 2006.

REPORTING THE CITY AS A WHOLE

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, there will also be a need to consider other non-financial factors.
- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are

intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, parks and recreation, and public works. The business-type activities of the City include the water and sewer utilities. The government-wide financial statements can be found on pages 11 and 12 of this report.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the city's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The only major governmental funds (as determined by generally accepted accounting principles) are the General Fund and the Capital Projects Fund. The City has several non-major funds.

- **Proprietary funds** - The City maintains two proprietary funds, both enterprise funds, to account for its water and sewer utility operations. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. As determined by generally accepted accounting principles, the Water Fund and Sewer Fund both meet the criteria for major fund classification.
- **Fiduciary funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City currently has no fiduciary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$3,269,360.

By far, the largest portion of the City's net assets (80 percent) reflect its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less depreciation and any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following schedules present summarized information from the Statement of Net Assets and the Statement of Activities.

STATEMENT OF NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Current and other assets	\$ 598,712	596,352	91,739	244,078	690,451	840,430
Capital assets	1,024,312	1,013,065	2,057,070	1,995,412	3,081,382	3,008,477
Total assets	1,623,024	1,609,417	2,148,809	2,239,490	3,771,833	3,848,907
Current liabilities	219,882	170,644	15,591	48,503	235,473	219,147
Noncurrent liabilities	-	-	438,015	360,400	438,015	399,831
Total liabilities	219,882	170,644	453,606	408,903	673,488	579,547
Invested in capital assets, net of debt	1,024,312	1,013,065	1,619,055	1,595,581	2,643,367	2,608,646
Restricted	14,832	11,853	26,314	52,592	41,146	64,445
Unrestricted	363,998	413,855	49,834	182,414	413,832	596,269
Total net assets	\$ 1,403,142	1,438,773	1,695,203	1,830,587	3,098,345	3,269,360

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenues:						
Program revenues:						
Charges for services	\$ 256,329	303,059	258,313	358,177	514,642	661,236
Operating grants	135,066	183,902	-	-	135,066	183,902
Capital Grants	3,951	-	9,000	-	12,951	-
General revenues:						
Property taxes	166,176	166,406	-	-	166,176	166,406
Sales and use taxes	161,693	172,377	-	-	161,693	172,377
Franchise taxes	6,548	1,358	-	-	6,548	1,358
Other revenues	5,597	10,433	607	5,209	6,204	15,642
Total revenues	735,360	837,535	267,920	363,386	1,003,280	1,200,921
Expenses:						
General government	191,434	238,579	-	-	191,434	238,579
Public safety	76,310	85,947	-	-	76,310	85,947
Streets and public improvements	210,776	160,796	-	-	210,776	160,796
Sanitation	118,487	121,479	-	-	118,487	121,479
Parks and recreation	190,125	195,103	-	-	190,125	195,103
Interest on long-term debt	-	-	16,442	15,631	16,442	15,631
Water Utility	-	-	180,904	175,089	180,904	175,089
Sewer Utility	-	-	41,495	37,282	41,495	37,282
Total expenses	787,132	801,904	238,841	228,002	1,025,973	1,029,906
Change in net assets	(51,772)	35,631	29,079	135,384	(22,693)	171,015
Net assets – beginning (07-01)	1,454,914	1,403,142	1,666,124	1,695,203	3,121,038	3,098,345
Net assets – ending (06-30)	\$ 1,403,142	1,438,773	1,695,203	1,830,587	3,098,345	3,269,360

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The financial reporting focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information may be useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$425,708, an increase of \$46,879 in comparison with the prior year. Of this total amount \$413,855 constitutes unreserved fund balance, which is available to meet the future financial needs of the City. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for the future City parks.

The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 42 percent of total general fund revenues. The two largest elements of taxes are sales taxes and property taxes. Combined they represent 99 percent of total tax revenues and 41 percent of total general fund revenues.

The City maintains enterprise funds to account for the business-type activities of the City, namely the water and sewer utilities. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the current fiscal year the General Fund budget for revenues was \$733,000. The actual revenue was \$825,652. This resulted in a favorable variance of \$92,652 for revenue. The General Fund budget for expenditures was \$733,000. The actual expenditures were \$744,361. This resulted in an unfavorable variance for \$11,361 for expenditures. Overall, the City had a favorable variance for the excess of revenues over expenditures of \$81,291.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$3,008,477 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, machinery and equipment, park facilities, roads and infrastructure (streets, sidewalks, curb and gutter, etc.). The increase in the City's investment in capital assets for the current fiscal year was \$63,216 and depreciation expense was \$136,122.

Major capital assets purchased during the fiscal year included the following:

- \$30,442 for road improvements.
- \$17,430 for new water meters.
- \$7,990 for new fences for parks.
- \$7,354 for a new furnace for the theatre.

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt – At June 30, 2006, the City had total debt outstanding of \$399,831 which consists of \$101,000 in revenue bonds used to improve the water system and \$298,831 of notes payable for water rights.

Additional information on the outstanding debt obligations of the City can be found in the footnotes to this financial report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Lewiston City, 29 South Main, P.O. Box 36, Lewiston, Utah, 84320.

BASIC FINANCIAL STATEMENTS

LEWISTON CITY
STATEMENT OF NET ASSETS
JUNE 30, 2006

<u>Assets</u>	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Pooled cash and cash equivalents	\$ 372,020	209,759	581,779
Receivables, net	224,332	34,319	258,651
Fixed assets, net	1,013,065	1,995,412	3,008,477
Total assets	1,609,417	2,239,490	3,848,907
<u>Liabilities</u>			
Liabilities:			
Accounts payable and accrued expenses	26,876	9,072	35,948
Deferred revenue	143,768	-	143,768
Bonds payable:			
Due within one year	-	39,431	39,431
Due within more than one year	-	360,400	360,400
Total liabilities	170,644	408,903	579,547
<u>Net Assets</u>			
Investments in capital assets, net of related debt	1,013,065	1,595,581	2,608,646
Restricted:			
Impact fees	11,853	26,278	38,131
Bond reserve	-	26,314	26,314
Unrestricted	413,855	182,414	596,269
Total net assets	\$ 1,438,773	1,830,587	3,269,360

The accompanying notes are an integral part of these financial statements.

LEWISTON CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental:							
General government	\$ 238,579	57,768	-	-	(180,811)	-	(180,811)
Sanitation	121,479	116,132	-	-	30,185	-	30,185
Public safety	85,947	25,506	35,336	-	(60,637)	-	(60,637)
Streets and public improvements	160,796	-	136,496	-	(24,300)	-	(24,300)
Parks and recreation	195,103	103,653	12,070	-	(79,380)	-	(79,380)
Total governmental activities	801,904	303,059	183,902	-	(314,943)	-	(314,943)
Business-type activities:							
Water fund	190,720	284,018	-	-	-	93,298	93,298
Sewer fund	37,282	74,159	-	-	-	36,877	36,877
Total business-type activities	228,002	358,177	-	-	-	130,175	130,175
Total primary government	\$ 1,029,906	661,236	183,902	-	(314,943)	130,175	(184,768)
General revenues:							
Taxes:							
Sales and use tax					172,377	-	172,377
Property tax					166,406	-	166,406
Franchise & other taxes					4,458	-	4,458
Total taxes					343,241	-	343,241
Interest income					7,333	5,209	12,542
Total general revenues					350,574	5,209	355,783
Change in net assets							
Net assets - beginning					35,631	135,384	171,015
Net assets - ending					1,403,142	1,695,203	3,098,345
					\$ 1,438,773	1,830,587	3,269,360

The accompanying notes are an integral part of these financial statements.

LEWISTON CITY
BALANCE SHEET -
GOVERNMENTAL FUNDS
JUNE 30, 2006

<u>Assets</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
Pooled cash and cash equivalents	\$ 31,799	318,231	21,990	372,020
Receivables, net	<u>224,332</u>	<u>-</u>	<u>-</u>	<u>224,332</u>
Total assets	<u>256,131</u>	<u>318,231</u>	<u>21,990</u>	<u>596,352</u>
 <u>Liabilities and Fund Equities</u>				
Liabilities:				
Accounts payable and accrued liabilities	26,876	-	-	26,876
Deferred revenue	<u>143,768</u>	<u>-</u>	<u>-</u>	<u>143,768</u>
Total liabilities	<u>170,644</u>	<u>-</u>	<u>-</u>	<u>170,644</u>
Fund equity:				
Fund balances				
Reserved - Impact fees	11,853	-	-	11,853
Unreserved - Undesignated	<u>73,634</u>	<u>318,231</u>	<u>21,990</u>	<u>413,855</u>
Total fund equity	<u>85,487</u>	<u>318,231</u>	<u>21,990</u>	<u>425,708</u>
Total liabilities and fund equity	<u>\$ 256,131</u>	<u>318,231</u>	<u>21,990</u>	<u>596,352</u>

The accompanying notes are an integral part of these financial statements.

LEWISTON CITY
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances for governmental funds \$ 425,708

Net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 191,419	
Buildings	1,119,017	
Equipment	703,295	
Infrastructure	67,514	
Accumulated depreciation	<u>(1,068,180)</u>	1,013,065

Net assets of governmental activities \$ 1,438,773

The accompanying notes are an integral part of these financial statements.

LEWISTON CITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Capital Projects Fund	Non-major Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 343,241	-	-	343,241
Licenses	23,278	-	-	23,278
Intergovernmental	202,735	-	-	202,735
Charges for services	211,347	-	-	211,347
Fines and forfeitures	15,416	-	-	15,416
Miscellaneous revenues	29,635	6,027	5,856	41,518
Total revenues	825,652	6,027	5,856	837,535
Expenditures:				
General government	218,058	15,854	-	233,912
Sanitation	121,479	-	-	121,479
Public safety	69,183	-	-	69,183
Streets and public improvements	146,505	30,441	-	176,946
Parks and recreation	189,136	-	-	189,136
Total expenditures	744,361	46,295	-	790,656
Excess (deficiency) of revenues over expenditures	81,291	(40,268)	5,856	46,879
Net change in fund balance	81,291	(40,268)	5,856	46,879
Fund balance - beginning of year	4,196	358,499	16,134	378,829
Fund balance - end of year	\$ 85,487	318,231	21,990	425,708

The accompanying notes are an integral part of these financial statements.

LEWISTON CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balance - Total governmental funds	\$ 46,879
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Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which depreciation expense of \$57,034 exceeded capital outlays of \$45,786 in the current year.

(11,248)

Changes in net assets of governmental activities	\$ <u>35,631</u>
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The accompanying notes are an integral part of these financial statements.

LEWISTON CITY
STATEMENT OF NET ASSETS -
PROPRIETARY FUND
JUNE 30, 2006

<u>Assets</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Business- Type Activities</u>
Pooled cash and cash equivalents	\$ 132,251	77,508	209,759
Receivables, net	27,651	6,668	34,319
Fixed assets, net	<u>1,705,893</u>	<u>289,519</u>	<u>1,995,412</u>
Total assets	<u>1,865,795</u>	<u>373,695</u>	<u>2,239,490</u>
 <u>Liabilities</u>			
Accounts payable and accrued liabilities	9,072	-	9,072
Non-current liabilities:			
Due within one year	39,431	-	39,431
Due in more than one year	<u>360,400</u>	<u>-</u>	<u>360,400</u>
Total liabilities	<u>408,903</u>	<u>-</u>	<u>408,903</u>
 <u>Net Assets</u>			
Investments in capital assets, net of related debt	1,306,062	289,519	1,595,581
Restricted:			
Impact fees	24,000	2,278	26,278
Bond reserve	26,314	-	26,314
Unrestricted	<u>100,516</u>	<u>81,898</u>	<u>182,414</u>
Total net assets	<u>\$ 1,456,892</u>	<u>373,695</u>	<u>1,830,587</u>

The accompanying notes are an integral part of these financial statements.

LEWISTON CITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Water Fund	Sewer Fund	Total Business- Type Activities
Operating revenues:			
Services	\$ 211,049	71,531	282,580
Connection fees	3,000	350	3,350
Other operating revenues	2,327	-	2,327
Total operating revenues	<u>216,376</u>	<u>71,881</u>	<u>288,257</u>
Operating expenses:			
Wages and benefits	70,812	23,015	93,827
Current expenses	37,878	1,578	39,456
Depreciation	66,399	12,689	79,088
Total operating expense	<u>175,089</u>	<u>37,282</u>	<u>212,371</u>
Operating income	41,287	34,599	75,886
Non-operating income (expense):			
Interest income	3,222	1,987	5,209
Impact fee income	12,000	2,278	14,278
Miscellaneous income	55,642	-	55,642
Interest expense	(15,631)	-	(15,631)
Total non-operating income (expense)	<u>55,233</u>	<u>4,265</u>	<u>59,498</u>
Change in net assets	96,520	38,864	135,384
Net assets - beginning of year	<u>1,360,372</u>	<u>334,831</u>	<u>1,695,203</u>
Net assets - end of year	<u>\$ 1,456,892</u>	<u>373,695</u>	<u>1,830,587</u>

The accompanying notes are an integral part of these financial statements.

LEWISTON CITY
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Water Fund	Sewer Fund	Total Business- Type Activities
<u>Cash flows from operating activities:</u>			
Receipts from customers and users	\$ 207,462	71,763	279,225
Payments to employees	(70,812)	(23,015)	(93,827)
Payments to suppliers	(42,384)	(3,591)	(45,975)
Net cash provided by operating activities	94,266	45,157	139,423
<u>Cash flows from non-capital financing activities</u>	-	-	-
<u>Cash flows from capital and related financing activities:</u>			
Purchase of capital assets	(17,432)	-	(17,432)
Sale of capital assets	55,644	-	55,644
Impact fee income	12,000	2,278	14,278
Principal payments on bonds	(38,184)	-	(38,184)
Interest payments on bonds	(15,631)	-	(15,631)
Net cash provided (used) in capital and related financing activities	(3,603)	2,278	(1,325)
<u>Cash flows from investing activities:</u>			
Interest on investments	3,222	1,987	5,209
Net cash provided by investing activities	3,222	1,987	5,209
Net increase in cash and cash equivalents	93,885	49,422	143,307
Cash and cash equivalents at beginning of year	38,366	28,086	66,452
Cash and cash equivalents at end of year	\$ 132,251	77,508	209,759
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 41,287	34,599	75,886
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	66,399	12,689	79,088
Change in assets and liabilities:			-
Increase in accounts receivable	(8,914)	(118)	(9,032)
Decrease in accounts payable	(4,506)	(2,013)	(6,519)
Total adjustments	52,979	10,558	63,537
Net cash provided by operating activities	\$ 94,266	45,157	139,423

The accompanying notes are an integral part of these financial statements.

LEWISTON CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Lewiston City (the City) was incorporated under the laws of the state of Utah. The City operates by ordinance under the Mayor-Council form of government and provides such services as are authorized by its charter including public safety (police and fire), highway and streets, sanitation, recreation, public improvements, planning and zoning, and general administration. In addition, the City owns and operates water and sewer utilities.

The accounting and reporting policies of the City relating to the accompanying financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued prior to December 1, 1989, which do not conflict with or contradict GASB pronouncements. The City has elected not to follow FASB pronouncements issued after November 30, 1989 in the preparation of these financial statements. The following represents the more significant accounting and reporting policies and practices used in the preparation of these financial statements:

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. The interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The City applies expenses for restricted resources first when both restricted and unrestricted net assets are available.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recognized only when payment is due.

Property taxes, state-shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Capital Project Fund is used to account for financial resources to be used for the acquisition of capital facilities and equipment by the city.

The City reports the following major proprietary funds:

- The Water Utility accounts for the activities of the City's water production, treatment, and distribution operations.
- The Sewer Utility accounts for the activities of the City's sewer treatment operations.

Note 1 – Summary of Significant Accounting Policies (continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$2,500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of all exhaustible fixed assets used is charged as an expense against the City's operations. Accumulated depreciation is reported on the financial statements. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	25 to 50 years
Water system and equipment	7 to 50 years
Machinery and equipment	3 to 20 years
Infrastructure	15 to 40 years

In the governmental fund financial statements, the acquisition or construction of capital assets is accounted for as capital outlay expenditures.

Deferred Revenues

In the government-wide statements and the proprietary fund statements, deferred revenue is recognized when cash or other assets are received or recognized prior to being earned. In the governmental fund statements, deferred revenue is recognized when revenue is either unearned or unavailable.

Long-term Debt

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide financial statements. The long-term debt consists of bonds and notes payable.

Note 1 – Summary of Significant Accounting Policies (continued)

Long-term debt for the governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payments of principle and interest are reported as expenditures. The accounting for proprietary fund long-term debt is the same as in the fund statements as in the government-wide statements.

Equity Classifications

Equity in the government-wide financial statements is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets.
- Restricted net assets – Consists of net assets with constraints placed on the usage whether by 1) external groups such as creditors, grantors or laws and regulations of other governments; 2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Governmental fund equity is classified as fund balance in the fund financial statements. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide financial statements.

Property Taxes

Cache County assesses all taxable property other than centrally-assessed property, which is assessed through the state, by May 22 of each year. The City must adopt a final tax rate prior to June 22, which is then submitted to the State for approval. Property taxes are due on November 30. Delinquent taxes are subject to a penalty of 2% for \$10.00, whichever is greater. After January 16 of the following year, delinquent taxes and penalties bear interest at 6% above the federal discount rate from January 1 until paid.

Property tax revenues are recognized when they become measurable and available. Amounts available include those property tax receivables expected to be collected within 60 days after year end.

Note 1 – Summary of Significant Accounting Policies (continued)

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted for governmental and proprietary fund types. Encumbrance accounting is not employed by the City in its governmental funds, therefore all annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital projects funds.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the Statement of Net Assets, the term “cash and cash equivalents” includes all demand deposit accounts, savings accounts, or other short-term, highly-liquid investments. For the purposes of the Statement of Cash Flows, the enterprise funds consider all highly liquid investments (including restricted assets) with original maturities of three months or less to be cash equivalents.

Note 2 – Deposits and Investments

The City follows the requirements for the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This Act requires the depositing of City’s funds in a “qualified depository”. The Act defines a “qualified depository” as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Utah Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the City’s deposits may not be returned. The City does not have a formal deposit policy for custodial credit risk. The uninsured and uncollateralized portion of the City’s bank balances was \$480,477 on June 30, 2006.

Note 2 – Deposits and Investments (continued)

Investments

The Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investment transactions. Investment transactions may only be conducted through qualified depositories, certified dealers or directly with the issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations, one of which must be Moody’s Investors Service or Standards & Poor’s; bankers’ acceptances; obligations of the United States Treasury including bills, notes and bonds; bonds, notes and other evidence of indebtedness of political subdivisions of the state; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in money market mutual fund as defined by the Act.

Interest Rate Risk – Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The City’s policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers’ acceptances, fixed rate negotiable deposits and fixed rate corporate obligations of 270 to 365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have remaining term to final maturity exceeding two years.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City’s policy for reducing its exposure to credit risk is to comply with the Act as previously discussed.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy for custodial credit risk in regard to the custody of the City’s investments.

Concentration of Credit Risk – Concentrations of credit risk is the risk of loss attributed to the magnitude of government’s investment in a single issuer. The City’s policy for reducing this risk of loss is to comply with the Rules of Money Management Council.

Note 3 – Legal Compliance – Budgets

On or before the first scheduled City council meeting in May, all agencies of the City submit requests for appropriation to the City's financial officer so that a budget may be prepared. The budget is prepared by fund, function, and activity, and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The proposed budget is presented to the City council for review at the first scheduled meeting in May. The City council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. Any changes to the budget must be within the revenues and reserves estimated as available by the City financial officer or the revenue estimates must be changed by an affirmative vote of a majority of the City council. Within 30 days of adoption, the final budget must be submitted to the State Auditor. If there is no increase to the certified tax rate, a final tax rate is adopted by June 22 and adoption of budgets is done similarly.

State statute requires that City officers shall not make or incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or subsequently amended.

Note 4 – Receivables

The City has property and sales taxes, accounts receivable and receivables due from other governments as of June 30, 2006 as follows:

General Fund:

Taxes:

Property taxes	\$	145,146
Sales taxes		33,174
Total taxes receivable		<u>178,320</u>

Accounts:

Garbage		11,687
Less allowance for doubtful accounts		(584)
911 fees		<u>1,434</u>
Total accounts receivable		<u>12,537</u>

Due from other governments:

Class "C" roads – State of Utah		28,749
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Other receivables

		<u>4,726</u>
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Total receivables – General Fund	\$	<u>224,332</u>
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Water Fund:

Accounts:

Services and fees	\$	29,106
Less allowance for doubtful accounts		<u>(1,455)</u>

Total receivables – Water Fund	\$	<u>27,651</u>
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Sewer Fund:

Accounts:

Services and fees	\$	7,019
Less allowance for doubtful accounts		<u>(351)</u>

Total receivables – Water Sewer	\$	<u>6,668</u>
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Note 5 – Capital Assets

Capital asset changes occurring for the year ended June 30, 2006, are as follows:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ <u>191,419</u>	<u>-</u>	<u>-</u>	<u>191,419</u>
Total capital assets not being depreciated	<u>191,419</u>	<u>-</u>	<u>-</u>	<u>191,419</u>
Capital assets being depreciated:				
Infrastructure	37,072	30,442	-	67,514
Buildings	1,103,673	15,344	-	1,119,017
Equipment	<u>739,538</u>	<u>-</u>	<u>(36,243)</u>	<u>703,295</u>
Total capital assets being depreciated	<u>1,880,283</u>	<u>45,786</u>	<u>(36,243)</u>	<u>1,889,826</u>
Accumulated depreciation for:				
Infrastructure	(137)	(2,614)	-	(2,751)
Buildings	(470,918)	(25,409)	-	(496,327)
Equipment	<u>(576,334)</u>	<u>(29,011)</u>	<u>36,243</u>	<u>(569,102)</u>
Total accumulated depreciation	<u>(1,047,389)</u>	<u>(57,034)</u>	<u>36,243</u>	<u>(1,068,180)</u>
Total capital assets being depreciated, net	<u>832,894</u>	<u>(11,248)</u>	<u>-</u>	<u>821,646</u>
Total governmental activities Capital assets, net	\$ <u>1,024,313</u>	<u>(11,248)</u>	<u>-</u>	<u>1,013,065</u>

Depreciation expense was charged to functions of the City as follows:

General government	\$ 4,667
Public safety	16,764
Streets and public improvements	14,292
Parks and recreation	<u>21,311</u>
Total depreciation expense	\$ <u>57,034</u>

Note 5 – Capital Assets (continued)

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
<u>Business-type Activities:</u>				
Capital assets not being depreciated:				
Land and water rights	\$ <u>439,703</u>	<u>-</u>	<u>-</u>	<u>439,703</u>
Total capital assets not being depreciated	<u>439,703</u>	<u>-</u>	<u>-</u>	<u>439,703</u>
Capital assets being depreciated:				
Buildings	<u>572,275</u>	<u>-</u>	<u>-</u>	<u>560,071</u>
Systems and equipment	<u>2,450,935</u>	<u>17,430</u>	<u>(29,634)</u>	<u>2,450,935</u>
Total capital assets being depreciated	<u>3,023,210</u>	<u>17,430</u>	<u>(29,634)</u>	<u>3,011,006</u>
Accumulated depreciation for:				
Buildings	<u>(124,380)</u>	<u>(14,174)</u>	<u>-</u>	<u>(138,554)</u>
Systems and equipment	<u>(1,281,463)</u>	<u>(64,914)</u>	<u>29,634</u>	<u>(1,316,743)</u>
Total accumulated depreciation	<u>(1,405,843)</u>	<u>(79,088)</u>	<u>29,634</u>	<u>(1,455,297)</u>
Total capital assets being depreciated, net	<u>1,617,367</u>	<u>(61,658)</u>	<u>-</u>	<u>1,555,709</u>
Total business-type activities capital assets, net	\$ <u>2,057,070</u>	<u>(61,658)</u>	<u>-</u>	<u>1,995,412</u>

Note 6 – Long-term Debt

Long-term liability transactions for the fiscal year ended June 30, 2006, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-type Activities:</u>					
Bonds payable	\$ 108,000	-	(7,000)	101,000	7,000
Note payable	<u>330,015</u>		<u>(31,184)</u>	<u>298,831</u>	<u>32,431</u>
 Total business-type long-term liabilities	 \$ <u>438,015</u>	 -	 <u>(38,184)</u>	 <u>399,831</u>	 <u>39,431</u>

Business-type Activities

Long-term debt for business-type activities consists of the following:

Bonds payable

\$155,000 Water revenue bonds, Series 1998, issued January 1, 1998. Due to the State of Utah in annual installments ranging from \$6,000 to \$9,000, including interest at 2.25%, through January 2018.

\$101,000

Note payable

\$360,000 Note payable, issued April 1, 2004, payable in annual installments of \$44,385, including interest at 4%, through February 2014. The note is secured by water rights.

298,831

Total \$399,831

Note 6 – Long-term Debt (continued)

The following is a summary of the annual payments to maturity:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	39,431	14,226	53,657
2008	41,729	12,771	54,500
2009	43,078	11,242	54,320
2010	44,481	9,659	54,140
2011	45,940	8,019	53,959
2012-2016	167,172	15,024	182,196
2017-2021	18,000	608	18,608
Totals	\$ 399,831	71,549	471,380

Note 7 – Restricted Net Assets/Reserved Fund Equity

Restricted net assets and reserved fund balances represent amounts required to be maintained to satisfy third party agreements or legal requirements. The following schedule details restricted net assets and reserved equity balances at June 30, 2006:

General Fund:

Park impact fees \$ 11,853

Water Fund:

Impact fees \$ 24,000

Bond reserve 26,314

Total Water Fund \$ 50,314

Sewer Fund:

Impact fees \$ 2,278

Note 8 – Pension Benefit Obligations

The City contributes to the Utah local Government Noncontributory Retirement Plan, a cost sharing multiple-employer defined benefit pension plan administered by the Utah Retirements System (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

Note 8 – Pension Benefit Obligations (continued)

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board, whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102, or by calling 1-800-365-8772.

In the Local Government Noncontributory Retirement System, the City was required to contribute 11.09 percent of the eligible employees' annual covered salary. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The City's contributions to the Systems for the years ended June 30, 2006, 2005 and 2004 were \$18,400, \$17,344 and \$13,970, respectively.

All contributions by the City were paid by the due dates or within 30 days thereafter and were equal to the required contributions for each year.

The Utah State Retirement Board of the Utah Retirement Systems provides the City with the necessary retirement disclosures for this report. The Utah Retirement Systems have implemented the accounting and reporting requirements of the Governmental Accounting Standards Board (GASP) Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers."

The City maintains a qualified defined contribution plan under Section 401(k) of the Internal Revenue Code, which is administered by the Utah Retirement Systems. Under the plan, eligible employees may elect to contribute a portion of their salary, subject to Internal Revenue Service limits. Contributions of \$14,681, \$8,987 and \$8,504 were made to the 401(k) plan during the years ended December 31, 2006, 2005 and 2004, respectively. Of these amounts, \$8,574, \$4,800 and \$4,800 were contributed by employees for the years ended December 31, 2006, 2005 and 2004, respectively, and \$6,107, \$4,187 and \$3,704 were contributed by the City on behalf of employees for the years ended December 31, 2006, 2005 and 2004, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

LEWISTON CITY
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property tax	\$ 155,500	155,500	166,406	10,906
Sales tax	173,000	173,000	172,377	(623)
Franchise & other taxes	1,500	1,500	4,458	2,958
Licenses and permits	20,000	20,000	23,278	3,278
Intergovernmental	152,500	152,500	202,735	50,235
Charges for services	208,500	208,500	211,347	2,847
Fines and forfeitures	11,000	11,000	15,416	4,416
Miscellaneous revenues	11,000	11,000	29,635	18,635
Total revenues	733,000	733,000	825,652	92,652
Expenditures:				
General government	173,000	210,000	218,058	(8,058)
Public safety	84,000	72,000	69,183	2,817
Streets and public improvements	180,000	143,000	146,505	(3,505)
Sanitation	122,000	122,500	121,479	1,021
Parks and recreation	163,000	185,500	189,136	(3,636)
Total expenditures	722,000	733,000	744,361	(11,361)
Excess (deficiency) of revenues over expenditures	11,000	-	81,291	81,291
Other financing uses:				
Transfers out:				
Capital Projects Fund	(11,000)	-	-	-
Total other financing uses	(11,000)	-	-	-
Change in fund balance	\$ -	-	81,291	81,291
Fund balance - beginning of year			4,196	
Fund balance - end of year	\$		85,487	

See Independent Auditor's Report.

LEWISTON CITY
NOTE TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2006

Expenditure in Excess of Budget

The following departments of the General Fund had expenditures in excess of budget for the year ended June 30, 2006:

<u>Department</u>	<u>Expenditures in excess of budget</u>
General government	\$8,058
Streets	\$3,505
Parks and recreation	\$3,636

SUPPLEMENTARY INFORMATION

LEWISTON CITY
SCHEDULE OF IMPACT FEES

The following is a summary of the impact fees collected through June 30, 2006:

For the year ending June 30,

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Totals</u>
<u>General Fund</u>				
Impact fees - Parks	\$ <u>1,317</u>	<u>3,951</u>	<u>6,585</u>	<u>11,853</u>
Total General Fund/Governmental Activities	\$ <u><u>1,317</u></u>	<u><u>3,951</u></u>	<u><u>6,585</u></u>	<u><u>11,853</u></u>
 <u>Water Fund</u>				
Impact fees - Water	\$ <u>3,000</u>	<u>9,000</u>	<u>12,000</u>	<u>24,000</u>
Total Water Fund/Business-type Activities	\$ <u><u>3,000</u></u>	<u><u>9,000</u></u>	<u><u>12,000</u></u>	<u><u>24,000</u></u>
 <u>Sewer Fund</u>				
Impact fees - Sewer	\$ <u>-</u>	<u>-</u>	<u>2,278</u>	<u>2,278</u>
Total Sewer Fund/Business-type Activities	\$ <u><u>-</u></u>	<u><u>-</u></u>	<u><u>2,278</u></u>	<u><u>2,278</u></u>

Lewiston City assesses impact fees to fund future capital projects for parks, water system improvements and sewer improvements. The projected schedule for expenditure of these funds has not yet been determined.

See Independent Auditor's Report.

GOVERNMENTAL AUDIT REPORT

Certified Public Accountant/Business Consultant

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**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance
with *Government Auditing Standards***

To the Honorable Mayor and City Council
Lewiston City
Lewiston, Utah

I have audited the financial statements of Lewiston City (the City) as of and for the year ended June 30, 2006 and have issued my report thereon dated February 5, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I reported to management of the City in a separate letter dated February 5, 2007.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Company's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I would consider to be material weaknesses.

This report is intended solely for the information of the management of the City, the City Council and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

MATTHEW REGEN, CPA, PC

Matthew Regen CPA PC

February 5, 2007

STATE COMPLIANCE REPORT

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LEGAL
COMPLIANCE REQUIREMENTS**

To the Honorable Mayor and City Council
Lewiston City
Lewiston, Utah

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lewiston City, Utah (the City), for the year ended June 30, 2006, and have issued my report thereon dated February 5, 2007. As part of my audit, I have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major assistance programs from the State of Utah:

Class C Road Funds (Department of Transportation)
Liquor Law Enforcement Funds (State Tax Commission)

My audit also included test work on the City's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Liquor Law Enforcement
Justice Courts Compliance
C Road Funds
Special Districts
Other General Compliance Issues
Department of Commerce
Impact Fees and Other Developmental Fees

Management of the City is responsible for the City's compliance with all compliance requirements identified above. My responsibility is to express an opinion on compliance with those requirements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. I believe that my audit provides a reasonable basis for my opinion.

The results of my audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. I considered these instances of noncompliance in forming my opinion on compliance, which is expressed in the following paragraph.

In my opinion, the City complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ending June 30, 2006.

Matthew Regen, CPA, PC

Matthew Regen CPA PC

February 5, 2007

MATTIE REGAN, CPA, PC
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February 5, 2007

To the Honorable Mayor and City Council
Lewiston City
Lewiston, Utah

In planning and performing my audit of the financial statements of Lewiston City (the City) for the year ended June 30, 2006, I observed certain matters related to compliance, internal control structure (other than "reportable conditions") and certain administrative and operating matters. I have already discussed many of these matters with City personnel, and I will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. My comments are summarized as follows:

Current Year Recommendations

1. Finding: *Budgetary compliance* - Expenditures exceeded their appropriations in several of the City's departments (General Government, Streets and Parks and Recreation).

Recommendation: Monitor each department's budget more closely and adopt budget changes as necessary.

Management response: Each department will monitor their budgets more closely and budgets will be adjusted as required.

2. Finding: *Cash Management* - All public funds must be deposited no later than three days after receipt.

Recommendation: Implement accounting policies and procedures that ensure that all deposits are made timely.

Management response: We will implement procedures that ensure that all deposits are made timely.

3. Finding: *Justice Court Funds and Reporting* - Justice Court funds due to the State should be remitted by the tenth of each month for funds received during the prior month. Also, a monthly report showing the judicial business of the judge must be sent to the State.

Current Year Recommendations (continued)

Recommendation: Implement procedures that ensure that all Justice Court funds due to the State and required reports are submitted within the required time.

Management response: We have hired an employee to assist us in complying with this requirement.

4. Finding: *State Legal Compliance Report* – The City's State Legal Compliance Audit Report must be submitted to the B & C Administrator within 180 days of the fiscal year end.

Recommendation: Implement procedures that ensure that the report is submitted timely.

Management response: We will implement this recommendation.

5. Finding: *Proper Accounting at Year-end* – Some expenditures that occurred prior to the end of the fiscal year were not reported in the proper period.

Recommendation: Implement accounting policies and procedures that ensure that expenditures are reported in the proper period.

Management response: We will implement procedures that ensure that all expenditures are reported in the proper period.

Prior Year Recommendations

1. Finding: *Payroll* – Payroll expenses and benefits are not being properly allocated to funds and departments.

Recommendation: Implement accounting policies and procedures that allocate payroll and benefits to funds and departments.

Management response: The City will implement this recommendation.

Status: Payroll and benefits are being properly allocated to funds and departments.

Prior Year Recommendations (continued)

2. Finding: *Petty Cash* – Petty cash is not being reconciled periodically to ensure transactions are included in the general ledger.

Recommendation: Implement accounting policies and procedures that periodically reconcile petty cash to the general ledger.

Management response: The City will implement this recommendation.

Status: Petty cash is being reconciled to the general ledger.
3. Finding: *Justice Court Funds* – Justice Court funds due to the State should be remitted by the tenth of each month for funds received during the prior month.

Recommendation: Implement procedures that ensure that all Justice Court funds due to the State are remitted within the required time.

Management response: We will hire an employee to assist with this recommendation.

Status: This remains a finding for the current year. See current year recommendation #3.
4. Finding: *Cash Management* – All public funds must be deposited no later than three days after receipt.

Recommendation: Implement procedures that ensure that all deposits are made timely.

Management response: We will implement procedures that ensure that all deposits are made timely.

Status: This remains a finding for the current year. See current year recommendation #2.
5. Finding: *State Legal Compliance Report* – The City's State Legal Compliance Audit Report must be submitted to the B & C Administrator within 180 days of the fiscal year end.

Recommendation: Implement procedures that ensure that all State reports are submitted timely.

Management response: We will implement this recommendation.

Status: This remains a finding for the current year. See current year recommendation #4.

Prior Year Recommendations (continued)

6. Finding: *Bonding of Treasurer* – The treasurer is inadequately bonded according to State law.

Recommendation: Increase the City's fidelity bond coverage for the treasurer.

Management response: The City will increase the bond coverage for the treasurer.

Status: The fidelity bond coverage for the treasurer is within State guidelines.

7. Finding: *Deficit Fund Balance* – The general fund has a deficit unrestricted fund balance on June 30, 2005.

Recommendation: Implement policies and procedures that monitor fund balances and prevent excess expenditures.

Management response: The City will implement this recommendation.

Status: The City has corrected the deficit fund balance and is monitoring fund balance more closely throughout the year.

In conclusion, I appreciate the assistance of all of the city personnel and administrators who were involved in this audit. I would especially like to recognize Julie Bergeson and Robert Barlow for their hard work and cooperation. Thank you for the opportunity to serve you.

Sincerely,

MATTHEW REGEN, CPA, PC

Math Regen CPA PC